

TITLE: Department of Revenue Fall 2012 Forecast Highlights

REVISED: December 3, 2012

PREPARED BY: Department of Revenue, Tax Division

PURPOSE: Provide Highlights of DOR's Fall 2012 revenue forecast for FY 2013 and FY 2014.

DATA SOURCES: Department of Revenue Tax Division Reports and Forecast
Treasury Division
Permanent Fund Corporation
Office of Management and Budget
Department of Natural Resources
Alaska State Accounting System

ASSUMPTIONS: The forecast assumes the tax laws in place as of November 1, 2012.

Production volumes are in thousands of barrels per day for Alaska North Slope (ANS) only, unless otherwise noted.

For FY 2013, we forecast total ANS production volume of 552.8 thousand barrels per day.

For FY 2014, we forecast total ANS production volume of 538.4 thousand barrels per day.

For FY 2013 and 2014, we use a blend of the EIA's October 2012 forecast, the NYMEX, the Fall 2012 Forecasting Session, and average Bloomberg analysts' forecast, for WTI annual averages of \$91.79 and \$98.79 (nominal).

ANS is forecasted to trade at a differential of \$16.88 and \$10.82 for FY 2012 and 2013 respectively. The corresponding ANS forecasts for FY 2013 and 2014 are \$108.67 and \$109.61.

Other assumptions include the TAPS tariff and transportation costs required to estimate value at the wellhead, and the inflation rate.

Historical data for FY 2012 may differ from previous forecasts as amendments and revisions may have been submitted since the last forecast.

Numbers may not add exactly due to rounding.

DISCLAIMER: The Department of Revenue uses an engineering consultant in conjunction with assistance from the Department of Natural Resources and the Alaska Oil & Gas Conservation Commission to derive its biannual production forecast. The department may adjust its production expectations as it continues to examine reservoir performance, review the pace and scope of development of new fields, and re-evaluate downtime.

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Figure 1 Summary of Total State Government Revenue, FY 2012 and Forecasted FY 2013 and FY 2014

\$ Million

	History FY 2012	Forecast FY 2013	Forecast FY 2014
Unrestricted Revenue Source			
<u>Unrestricted General Fund</u>			
Oil Revenue	8,857.8	6,904.0	6,399.0
Non-Oil Revenue	519.6	541.5	535.5
Investment Earnings	<u>107.8</u>	<u>66.2</u>	<u>67.5</u>
Subtotal	9,485.2	7,511.7	7,001.9
Restricted Revenue Source			
<u>Designated General Fund</u>			
Non-Oil Revenue	268.2	311.7	310.0
Investment Earnings	<u>34.6</u>	<u>41.4</u>	<u>33.7</u>
Subtotal	302.8	353.1	343.7
<u>Other Restricted Revenue</u>			
Oil Revenue	1,021.7	1,138.0	858.4
Non-Oil Revenue	184.5	209.9	210.8
Investment Earnings	<u>109.7</u>	<u>3,286.0</u>	<u>3,369.5</u>
Subtotal	1,315.9	4,633.9	4,438.7
<u>Federal Revenue</u>			
Oil Revenue ⁽¹⁾	4.8	2.7	2.7
Federal Receipts	<u>2,455.5</u>	<u>2,822.7</u>	<u>2,822.7</u>
Subtotal	2,460.3	2,825.4	2,825.4
Total Designated and Restricted	4,079.0	7,812.4	7,607.8
Total State Revenue	13,564.2	15,324.1	14,609.7

⁽¹⁾ Oil revenue shown in the Federal category includes the state share of rents, royalties and bonuses received from the National Petroleum Reserve - Alaska

Figure 2 Total State Government Revenue, FY 2012 and Forecasted FY 2013 and FY 2014

\$ Million	History FY 2012	Forecast FY 2013	Forecast FY 2014
UNRESTRICTED GENERAL FUND REVENUE			
<u>Oil Revenue</u>			
Property Tax	111.2	111.6	99.3
Corporate Petroleum Tax	568.8	558.2	606.9
Production Tax	6,146.1	4,353.2	3,778.8
Royalties (including Bonuses, Rents & Interest)	<u>2,031.7</u>	<u>1,881.0</u>	<u>1,914.0</u>
Subtotal	8,857.8	6,904.0	6,399.0
<u>Other Sources (Except Federal & Investment)</u>			
Taxes	350.5	379.3	389.8
Charges for Services	29.2	33.3	33.3
Fines and Forfeitures	10.9	9.5	9.5
Licenses and Permits	42.3	43.4	43.1
Rents and Royalties	20.4	20.3	20.3
Other	<u>66.3</u>	<u>55.7</u>	<u>39.5</u>
Subtotal	519.6	541.5	535.5
<u>Investment Revenue</u>			
Investments	104.8	61.8	63.1
Interest Paid by Others	<u>3.0</u>	<u>4.4</u>	<u>4.4</u>
Subtotal	107.8	66.2	67.5
Subtotal Unrestricted General Fund Revenue	9,485.2	7,511.7	7,001.9
DESIGNATED GENERAL FUND REVENUE			
<u>Other Sources (Except Federal & Investment)</u>			
Taxes	52.0	50.5	50.7
Charges for Services	200.1	231.2	229.3
Fines and Forfeitures	6.9	8.0	8.0
License and permits	0.4	0.2	0.2
Rents and Royalties	4.4	4.4	4.4
Other	<u>4.4</u>	<u>17.4</u>	<u>17.4</u>
Subtotal	268.2	311.7	310.0
<u>Investment Revenue</u>			
Investments - Designated GF	9.2	4.8	5.3
Other Treasury Managed Funds	<u>25.4</u>	<u>36.6</u>	<u>28.4</u>
	34.6	41.4	33.7
Subtotal Designated General Fund Revenue	302.8	353.1	343.7

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\$ Million	History FY 2012	Forecast FY 2013	Forecast FY 2014
OTHER RESTRICTED REVENUE			
<u>Oil Revenue</u>			
Royalties to Perm Fund & School Fund (includes Bonuses & Rents)	919.6	801.6	838.4
Tax and Royalty Settlements to CBRF ⁽¹⁾	<u>102.1</u>	<u>336.4</u>	<u>20.0</u>
Subtotal	1,021.7	1,138.0	858.4
<u>Other Sources (Except Federal & Investment)</u>			
Taxes	75.3	70.2	71.3
Charges for Services	41.7	69.6	69.6
Fines and Forfeitures	24.4	23.6	23.4
Licenses and Permits	30.7	31.5	31.5
Rents and Royalties	8.0	8.0	8.0
Other	<u>4.4</u>	<u>7.0</u>	<u>7.0</u>
Subtotal	184.5	209.9	210.8
<u>Investment Revenue</u>			
Investments - Other Restricted	18.5	9.8	10.6
Constitutional Budget Reserve Fund	191.1	550.3	422.9
Alaska Permanent Fund (GASB) ⁽²⁾	<u>-99.9</u>	<u>2,725.9</u>	<u>2,936.0</u>
Subtotal	109.7	3,286.0	3,369.5
Subtotal Other Restricted Revenue	1,315.9	4,633.9	4,438.7
FEDERAL REVENUE			
<u>Oil Revenue</u>			
NPR-A Royalties, Rents and Bonuses	<u>4.8</u>	<u>2.7</u>	<u>2.7</u>
Subtotal	4.8	2.7	2.7
<u>Federal Receipts</u>			
Federal Receipts	<u>2,455.5</u>	<u>2,822.7</u>	<u>2,822.7</u>
Subtotal	2,455.5	2,822.7	2,822.7
Subtotal Federal Revenue	2,460.3	2,825.4	2,825.4
Grand Total	13,564.2	15,324.1	14,609.7

(1) One November 8, 2012, a \$255 million settlement was announced between the State of Alaska and BP Exploration (Alaska) Inc. The majority of the \$255 million will be deposited into the Constitutional Budget Reserve Fund (CBRF). However, a portion will also be deposited into the Permanent Fund and the School Fund, and approximately \$10 Million will be paid to settle civil assessments. As this information was received late in the forecast process, the entire \$255 million was included as a deposit to the CBRF for purposes of this Revenue Sources Book. The department's Spring 2013 update will revise this information to include the actual amounts deposited to each applicable fund.

(2) While payouts are limited to realized revenues, both unrealized and realized are shown per Generally Accepted Accounting Principles (GAAP).

**Figure 3 Forecasted Oil Production on Alaska’s North Slope
(Thousands of barrels per day)**

FY	Currently Producing	Decline Rate of Currently Producing	Risk Adjusted New Oil	Risk Adj Total Forecast	Net Decline	Percent New Oil
2013	517.6	-10.6%	35.3	552.8	-4.5%	6.4%
2014	486.1	-6.1%	52.3	538.4	-2.6%	9.7%
2015	440.0	-9.5%	78.6	518.6	-3.7%	15.2%
2016	401.1	-8.8%	98.6	499.7	-3.6%	19.7%
2017	367.4	-8.4%	108.7	476.1	-4.7%	22.8%
2018	337.9	-8.0%	105.0	442.9	-7.0%	23.7%
2019	312.2	-7.6%	109.4	421.6	-4.8%	25.9%
2020	289.9	-7.2%	104.9	394.8	-6.4%	26.6%
2021	269.6	-7.0%	96.3	365.9	-7.3%	26.3%
2022	251.2	-6.8%	87.3	338.5	-7.5%	25.8%

Figure 4 Basic Data Used for ANS Oil & Gas Production Taxes ⁽¹⁾

	History	Forecast	
	FY 2012	FY 2013	FY 2014
North Slope Price and Production			
Price of ANS WC in dollars per barrel	112.65	108.67	109.61
Transit Costs & Other in dollars per barrel	8.81	9.43	8.81
ANS Wellhead in dollars per barrel	103.84	99.24	100.80
Total ANS Production in thousands of barrels per day	579.1	552.8	538.4
Royalty and federal thousands of barrels per day ⁽²⁾	76.4	71.4	70.7
Taxable thousands of barrels per day	502.7	481.4	467.7

North Slope Lease Expenditures ⁽³⁾⁽⁴⁾

Total North Slope Lease Expenditures in \$ millions			
Operating Expenditures [OPEX]	3,001.2	3,078.9	2,817.4
Capital Expenditures [CAPEX]	2,383.4	3,262.9	3,845.1
Total North Slope Expenditures	5,384.6	6,341.8	6,662.5
Deductible North Slope Lease Expenditures in \$ millions			
Operating Expenditures [OPEX]	2,862.2	2,832.8	2,779.0
Capital Expenditures [CAPEX]	1,543.0	2,393.0	3,338.6
Deductible North Slope Expenditures	4,405.3	5,225.8	6,117.6

State Production Tax Revenue ⁽¹⁾

Millions of Dollars	6,146.1	4,353.2	3,778.8
Production Tax Collected per Taxable Barrel	33.4	24.8	22.1

State Wide Production Tax Credits ⁽³⁾⁽⁵⁾

Credits Used against Tax Liability in \$ millions	360.0	490.0	615.0
Credits for Potential Purchase in \$ millions	353.0	360.0	400.0

(1) Production tax is calculated on a company specific basis, therefore the aggregated data reported here will not generate the total tax revenue shown. For an illustration of the tax calculation, see Appendix D.

(2) Royalty and Federal barrels represents DOR's best estimate of barrels that are not taxed. This estimate includes both state and federal royalty barrels, and barrels produced from federal offshore property.

(3) Lease expenditures and credits used against tax liability for FY 2012 were prepared using unaudited company-reported estimates.

(4) Expenditure data for FY 2013 and FY 2014 are compiled from company submitted expenditure forecast estimates and other documentation as provided to the DOR. Expenditures shown here are shown in two ways: (1) total estimated expenditures including for those companies with no tax liability; and (2) estimated deductible expenditures for only those companies with a tax liability.

(5) Production tax credits shown include all production tax credits and all areas of the state. North Slope CAPEX credits are spread out over two years as specified in the ACES production tax. Assumptions for the \$12 million credits for small Alaska producers are included in the table.

Figure 5 Crude Oil Prices – Forecast (\$ per barrel)

NOMINAL⁽¹⁾

WTI, ANS West Coast, ANS and Cook Inlet Wellhead Prices

FY	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
WTI	91.79	98.79	102.83	107.24	110.27	112.74	114.88	117.10	119.38	121.77
ANS West Coast Spot	108.67	109.61	111.67	114.88	116.22	117.16	118.29	119.74	121.42	123.34
ANS Wellhead Wtd Average All Destinations	99.24	100.80	102.70	105.54	106.53	107.28	108.12	109.20	110.49	112.02

REAL 2012 \$

WTI, ANS West Coast, ANS and Cook Inlet Wellhead Prices

FY	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
WTI	91.79	96.38	97.88	99.58	99.90	99.64	99.06	98.51	97.98	97.51
ANS West Coast Spot	108.67	106.94	106.29	106.68	105.29	103.55	102.00	100.73	99.65	98.76
ANS Wellhead Wtd Average All Destinations	99.24	98.35	97.75	98.00	96.51	96.51	93.23	91.87	90.69	89.70

⁽¹⁾ The forecast is made in real dollars. Callan Associates Inc.'s inflation rate of 2.5% was used to calculate nominal dollars for FY 2014 and beyond.

Figure 6 General Purpose Unrestricted General Fund Revenue, with Petroleum Revenue Detail, FY 2012 and Forecast (\$ million)

FY	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Unrestricted Petroleum Revenue										
Petroleum Corporate Income Tax	558.2	606.9	623.6	633.6	643.0	651.9	660.3	668.2	675.8	683.0
Oil and Gas Production Tax	4,353.2	3,778.8	3,406.6	3,723.1	3,890.6	3,834.7	3,663.1	3,462.3	3,244.3	3,042.9
Petroleum Property Tax	111.6	99.3	95.3	92.0	89.1	86.3	83.7	81.7	79.1	76.5
Oil and Gas Royalties-Net ⁽¹⁾	1,869.6	1,907.0	1,881.7	1,865.6	1,764.4	1,645.8	1,527.6	1,450.8	1,366.5	1,290.7
Bonuses, Rents & Interest-Net ⁽¹⁾⁽²⁾	11.4	7.0	9.2	9.2	9.2	9.2	9.2	9.2	9.2	9.2
Petroleum Special Settlements	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Unrestricted Petroleum Revenue	6,904.0	6,399.0	6,016.4	6,323.6	6,396.3	6,228.0	5,943.8	5,672.2	5,374.9	5,102.3
General Fund Unrestricted Non-Petroleum Revenue	607.7	603.0	643.1	675.9	709.1	742.1	775.4	814.4	833.6	867.1
Total Unrestricted General Fund Revenue	7,511.7	7,001.9	6,659.5	6,999.5	7,105.5	6,970.1	6,719.2	6,486.6	6,208.6	5,969.5
% Petroleum of Total Unrestricted General Fund Revenue	92%	91%	90%	90%	90%	89%	88%	87%	87%	85%
Cumulative Unrestricted Petroleum Revenue⁽³⁾	109,151	115,550	121,567	127,890	134,286	140,514	146,458	152,131	157,505	162,608

⁽¹⁾ Royalties, bonuses, rents and interest are net of Permanent Fund contribution and Constitutional Budget Reserve Fund (CBRF) deposits.

⁽²⁾ This category is primarily composed of petroleum revenue.

⁽³⁾ The cumulative Unrestricted General Fund petroleum revenue total is based on revenue beginning in FY 1959.